However, resolving the problems of domestic industries will not provide a total solution to renewed economic health in countries with which the U.S. is significantly interlocked remain in distress. Some U.S. leaders are suggesting methods of facilitating Mexico's trade balancing efforts in the face of an oil oversupply. The U.S. has already agreed to replenish its strategic petroleum reserve with major increases in Mexican oil imports. This will help indirectly to ease the government's resort to restrictive currency measures which are rapidly alienating U.S. financial and industrial interests now critical to Mexico's economic health. On a broader scale, some leaders are advocating that we further stimulate the flow of Mexican oil into the U.S. by using it to supply nearby Gulf Coast refineries. Alaskan oil, expensive to use in the southern part of the U.S. because of transcontinental transport costs, could be shipped to Japan in place of the Mexican oil if presently received, reducing Japan's transportation costs as well. Although this three-way arrangement holds many advantages, it conflicts directly with a basic public perception that we should not sell scarce oil supplies to foreigners.

This conflict highlights the need for a better integration of U.S. trade policy with domestic policy. It does little good for two or three major trading partners to seek gains or concessions on the same trade issue. Each must assign priorities to their domestic problems and then attempt to understand the priorities of others. Ideally, we should acquire the political discipline that would allow us to be responsive to another country's priorities in return for their responsiveness to matters of high U.S. priority. Once those major international exchanges are achieved, it is incumbent upon the domestic structure to allocate internal resources partially to recompense the advocates of low-priority interests who have not been accommodated in the international bargaining process. The mechanisms for achieving these ends are not obvious, and their implementation is often painful. We cannot, however, defer our quest for them, because experience suggests that other alternatives produce escalating conflict at an economic level which can only undermine essential political international structures.

--- Frederick K. Huszagh
The Dean Rusk Center was established in 1977 to foster interdisciplinary research, service, and education concerning trade and investment. U.S. fiscal and monetary policy has been a major focus of Center study because of its increasing impact on international commerce. Other areas of concern include international political and military relations and various types of social and cultural exchanges. The Center recognizes, however, that the internal affairs of nations remain the major determinant of international relations and that domestic concerns about the value of the society, its social dynamics, and the availability of resources will continue to vie for dominance in determining a nation’s posture in world affairs. Thus, much of the Center’s work dwells on domestic events and different disciplinary explanations of their presence and evolution.

Admittedly, the interactions of fiscal and monetary policy, international arrangements, and domestic events cannot be fully analyzed in a specific geographic or subject context. Nevertheless, many of the Center’s policy development activities concentrate on the North American region and on related subjects of agriculture, national development, business-government relations, and public governance. These biweekly “briefings” reflect the convergence of the Center’s diverse activities and interests.

Facts and details of events addressed in Briefings are gathered through a scanning of major daily newspapers and weekly periodicals, which are cited throughout each article. Sources of related policy and disciplinary material appear in a listing following each article. The purpose is to link facts with policy implications and academic points of view in order to present an integrated and in-depth approach to current issues. Views expressed are not necessarily those of the Rusk Center.

1. FISCAL AND MONETARY POLICY

MONETARY - IMPLICATIONS OF CHANGES IN FEDERAL RESERVE POLICIES

Within the last month, three Federal Reserve Board actions have caused concern among different groups involved in the acquisition, dissemination, and utilization of capital. First, the Fed has decided to pay less attention to the M1 measure of the money supply and to focus more on M2 and M3, broader measures which include savings, time certificates of deposits, and money market funds. Second, the Federal Reserve plans to install a new charge structure for its check clearance services, which compete directly with private operations. Finally, several weeks ago the Fed chose not to reduce its discount rate (the interest rate on loans of federal funds to banks), although a drop had been anticipated as the natural response to a half-point reduction in the prime lending rate announced by several large banks. The first two events did not attract widespread attention, but the third allegedly triggered one of the largest drops in the Dow Jones Index since the stock market crash of 1989 (Wall St. J., 10-26-92, pp. 3, 37 & 59). This assured that Americans would continue to regard the Federal Reserve as an institution with great power to shape the nation’s economic climate.

Despite some suspicion that the Fed is prepared to abandon its tight money policy and allow the monetary growth rate to surge upward, the Reserve’s shift in emphasis from M1 to M3 is reasonable, given changes in the way people are using various components of the money supply. For several years monetary growth, defined in terms of the various aggregates, and interest rates have been critical measures of the Reserve’s effectiveness in stabilizing the country’s capital environment. Monetary growth rates have also become critical units in defining targets for Reserve Board corrective actions, but the focus on money supply has been controversial. Strong pressure is now being exerted on the Fed to stabilize interest rates instead, because of people’s perception that economic conditions are directly dependent on them. The switch in emphasis from M1 to M2 probably reflects not so much disenchantment with reliance on the money supply as a realization
that structural changes in financial institutions have eliminated most barriers to massive shifts in the form of capital. By focusing on M2, the Fed avoids giving unreasonable credence to the implications of the current rapid growth in M1 aggregates resulting from the liquidation of NOW accounts and other assets as investors prepare to make longer-term investments in stocks and bonds as economic recovery progresses (Wall St. J., 10-22-82, p. 31). So long as the Federal Reserve uses the money supply as the major index of a sound currency, it must focus on the aggregate measure best approximating the actual rate of growth. Consistent deference to a single measure is not a virtue, but an insensitive response to the evolving dynamics of the nation's money supply.

The proposed changes in the Federal Reserve's check clearance policies have evoked charges that the government intends: (1) to expand employment opportunities at the Federal Reserve, (2) to crowd out private enterprise, or alternatively, (3) to compete unfairly with private enterprise (Wall St. J., 10-26-82, p. 35). Part of the Fed's function as the bankers' bank is to maintain accounts for all member banks of the Reserve system. The Fed can thus debit the paying bank's funds as soon as the check is in possession. If private firms clear a check, the debit is not recorded until the check is physically returned to the paying bank. The Fed's ability to debit checks immediately does give it an advantage that could be interpreted as "unfair", but there are other, more important implications. Clearance delays inherent in the private system allow money managers of large corporations to maintain a currency float at the expense of collecting banks. Often injured are smaller banks with little capacity to manipulate the system. Curtailing this float would rectify a bias against them, facilitate a more precise measure of the money supply, and reduce the differential between electronic funds clearance and paper check clearance. Admittedly, Fed officials directly responsible for clearing checks have a vested interest in expanding their market share and service volume, but these motives should not be attributed to the Federal Reserve Board, whose primary concern is ensuring that funds are transferred efficiently and that delays do not become another nonproductive money-making tactic.

While the previous two initiatives are controversial among specialists, the Fed's reliance to lower the discount rate on a coordinated basis with the private sector's reduction of the prime rate has generated widespread concern. Many experts suggested caution signals the Board's intent to brake decending interest rates artificially; but again, more rational explanations are available. It is the Federal Reserve's responsibility to distinguish temporary softness in the demand for funds from an appropriate return on funds over meaningful time periods. By temporarily diluting its own actions from private initiatives, the Board may be urging capital lenders and users to differentiate between experimentation in interest rate changes and seasoned judgments about a reasonable rate of return given existing economic conditions (Wall St. J., 10-27-82, p. 44).

Of course, most controversy surrounding interest rates does not stem from conflicting opinion about the appropriate real rate of interest. It focuses on the inflation premium. The double-digit inflation of recent years is the product of events and forces at work over two decades. Current world events provide U.S. citizens with few reasons to believe the inflation rate will return to the low levels of the 1960s. Moreover, although various inflation indices have decreased to the single-digit level, empirical research suggests that the nominal rate of interest will not come down on a point-for-point basis, especially in the short term. Normally, the interaction of such factors as workers' income and wealth, lower potential productivity of investment projects, taxes, and uncertainty have a dampening effect, so that if expected inflation declines from 12% to 7% a year, the nominal rate of interest is unlikely to fall more than four percentage points. Consequently, the Federal Reserve seems prudent in not following prime rates down point for point, especially because these rates are below world rates other adjustments for differences in political stability. Similarly, the Board ought not follow run-ups in the interest rate point for point until empirical evidence demonstrates a material disequilibrium between the demand and supply of funds. Given the contradictory impact of interest payments, taxes, and depreciation allowances, it would seem irresponsible of the Federal Reserve to make subtle judgments on the
appropriate interest rate when little consensus exists on the quantity and quality of economic recovery here and abroad.

In sum, the activities of the Federal Reserve over the last several months have been eminently reasonable and have helped reduce the range of difference among economic forecasts. This, in turn, has dampened market speculation and provided an atmosphere conducive to a flow of liquid wealth into longer-term investments in the real economy of productive enterprises. If the Fed is to achieve its statutory purpose, it must provide leadership in reorienting the public to the efficient production of real goods rather than to profit taking on speculation about what the nominal rate of interest will be at particular points in the future. In this role the Federal Reserve must maintain the distinction between banks, which must redistribute liquid capital efficiently, and producers of goods, whose job it is to use capital in the efficient production of real goods. By fulfilling its statutory mandate of providing a stable currency, the Federal Reserve can create an economic environment allowing producers of real goods to plan confidently regarding capital expansion and market development.


II. INTERNATIONAL ARRANGEMENTS

SOCIAL/CULTURAL - THE CONTROVERSY OF THE NEW WORLD INFORMATION ORDER

Communication and the flow of information have always influenced the balance of social, political, and economic affairs. With the tremendous surge of satellite and print technology, there is intense international concern over the manner in which Western news organizations cover world news. During the final weeks of August and the first week of September, as the crisis in Beirut between Israel and the Palestine Liberation Organization reached a momentary standstill, a new battle began -- this one pitting Jewish leaders around the globe against Western news agencies. Groups in Israel, angered by what they considered biased coverage by the NBC television network in portraying Israel as a harsh aggressor in the war in Lebanon, demonstrated against the network. Israel's Government Press Office also accused the New York Times, Newsweek, and the ABC television network of favoring the PLO or being intimidated by it (Newsweek, 9-13-82, pp. 58+).

The question of accurate coverage is not the only concern. Private versus state owned and operated communications systems is a source of controversy, often political in nature, which has intensified because of the broad reach of satellite transmissions. Socialist factions and the state-operated television stations in West Germany and France are in an uproar over plans by the privately-owned Tele-Luxembourg to utilize a $200 million satellite with the capacity to broadcast throughout Holland, Switzerland, Germany, and France. European socialists contend that such satellite and cable technology will alter the state-operated systems and influence social and political attitudes in a manner threatening to their ideology. Although no decisions have been reached, socialists in the European Community are asking for European controls over the satellite (Bus. Wk., 9-20-82, pp. 514).

Third world countries cite the power and influence of the Western news media in claiming an imbalance in the flow of international news, which is dominated by four Western news organizations: Associated Press, United Press International, Agence France-Presse, and Reuters. Lacking effective communications systems of their own, developing countries are dissatisfied with their dependence on Western news agencies for news about events within their borders, as well as in other countries, believing that coverage is often superficial or distorted, especially as it relates to events in the third world. Third world countries are also concerned about how the rest of the world perceives them through the information provided by Western services. Developing
countries complain that the current information system is nothing more than "media imperialism" which dominates the cultures of the third world with Western interpretation (Yu, 1981/82). Developing countries contend that such a one-way flow of information restricts the overall development of the third world. As a result, the third world is eager to increase its independence from Western news agencies through the establishment of effective communications technology under its own management and control (World Press Review, 11-82, p. 44).

Support for third world demands has come from the United Nations. Since the early 1970s, the United Nations Educational, Scientific, and Cultural Organization (UNESCO) has been concerned with the imbalance in coverage and flow of news information in the third world. Under the guidance of UNESCO, plans are underway for the formation of a New World Information and Communication Order. Its purpose is to bridge the communications gap between developed and developing countries. Primary efforts of UNESCO include proposals for intensive training of journalists, developing national news agencies in the third world, promoting educational radio programs in the developing world, and establishing national newspapers. The International Programme for the Development of Communication, an intergovernmental council established in June 1981 by UNESCO, has increased its appeal in the United Nations by reaffirming its dedication to identifying needs and by setting priorities for communications development in the third world. The program calls for contributions of money, technology, labor, and training from any of the 157 members of the General Assembly of the United Nations (Osterfeld, 1982; U.N. Monthly Chronicle 19(2):32-35, 1982).

While few would debate that an imbalance in communications exists, not all members of the General Assembly fully support the proposals for a new information order. Reluctant members argue that many third world countries do not provide an environment conducive to the establishment and maintenance of a democratic communications system that would serve the people. Western countries are not denying developing countries the right to communications technology, but rather question the ability of the third world autonomously to maintain an efficient system that would serve social rather than political purposes. U.S. Ambassador to the United Nations Jeane Kirkpatrick has stated that the Reagan administration cannot support any program that runs counter to the principles of the Constitution of the United States -- in this case, freedom of the press (Gasher, 1982; Yu, 1982).

A large number of Western journalists claim that freedom of the press may not presently be possible in some third world countries because of their political instability and government suppression of news coverage. Further, since UNESCO is an international political organization, some journalists insist it should not be allowed to define the parameters of a new world information order. Rather, their definition should be the responsibility of journalists from developed and developing countries alike (Leger, 1981).

As the debate over balanced communication continues, numerous questions have yet to be answered. Before any firm steps are taken toward the formation of a new world information order, UNESCO must:

1) determine the sovereign rights of nations and the rights of citizens to communicate;
2) adequately justify the need for journalistic investigations;
3) establish an international code of ethics;
4) provide means to protect journalists;
5) determine the risks of further concentrating communications in the hands of a few private and public enterprises; and
6) create a definition of freedom of the press that can span political ideologies (Gasher, 1982).

For UNESCO, possibly the best starting point in upgrading the quality of news coverage is to offer training programs to make journalists more informed about the socioeconomic and political environment of third world countries where they will work. Whatever action UNESCO takes, however, it must exercise care not to overstep or rewrite the Universal Declaration of Human Rights, which defines the free flow of information as an individual right to receive information without interference.
through any media. It is therefore against the human rights declaration at any time to "substitute collective rights for those of the individual" (Fascelli, 1979:262). Although providing an opportunity for journalists from all countries to increase their understanding of local political and socioeconomic problems in third world countries through U.N. training programs will not entirely solve the communication imbalance, it will be an important step in tipping the scales toward more competent coverage.


III. DOMESTIC ISSUES

HUMAN DYNAMICS - THREATS TO A CIVILIAN GOVERNMENT IN HONDURAS

Eleven months ago Hondurans went to the polls in large numbers to elect a civilian president for the first time in nine years. Amid high hopes at home and abroad for a stable democracy in an otherwise war-torn region, the military regime had stepped aside to allow elections to occur according to a plan established two years earlier. In late January, Roberto Suazo Cordova, a rural doctor and member of the conservative faction of the centrist Liberal Party, was installed in the nation's highest office (Latin America Wkly. Report, 12-4-81, p. 2).

The subsequent months have not been kind to Honduras, nor do they bode well for the new civilian government. Already suffering from the adverse effects of a worldwide recession, the country this summer experienced floods that left thousands homeless and whose crops destroyed. Commodity prices have continued to be abysmal. In particular, the soft coffee market has halted the expansion of coffee growing, and export earnings on sugar will be drastically reduced by the U.S. imposition of quotas on sugar imports (This Week: Central America & Panama, 5-31-82, pp. 161+; 6-7-82, pp. 170+; 7-5-82, p. 207).

Of perhaps even more concern is the scarcity of capital. Over the past year capital leaving the country has grown steadily to a torrent, and new capital has not entered, in part because of the risks associated with regional instability. But foreign investors have turned their backs on Honduras for other reasons -- financial mismanagement and/or corruption of some Honduran business people and bankers in their handling of external funds and the Honduras government's subsequent refusal to deal with unfavorable situations according to standard practices of the International business and investment community. In one incident a year ago, a major Honduran bank collapsed. The central bank, contrary to all expectations, then took steps designed to leave foreign investors out of the settlement of claims (Wall St. J., 11-31-81, pp. 1+; 9-28-82, pp. 1+).

Another incident involved the Honduran government's refusal to pay an arbitration settlement awarded by the Inter-American Commercial Arbitration Commission to a consortium of U.S. companies that had worked on the construction of Puerto Castilla on the Atlantic coast. Because of the difficulties between the consortium and the port authority leading to arbitration, work on the port -- the third component of a massive development project to produce pulp and paper -- has been abandoned for two years. The other components are near completion, but without the port, they will be of little use in generating badly needed hard currency for Honduras (This Week: Central America & Panama, 6-21-82, pp. 188+). Under such circumstances, it is difficult to imagine that capital to complete the project will be forthcoming from private sources.
The scarcity of capital not only hurts the country as a whole, but it particularly strikes at the lifestyles of middle- and upper-class Hondurans, from whom members of the ruling circle and their associates are drawn. The Honduran government, having reached agreement with the International Monetary Fund (IMF) on terms for using up to $150 million in special drawing rights during 1983, is faced with the necessity of reining in Conadi, the Honduran Industrial Development Corporation, which has apparently spent funds profligately. The IMF wants Conadi eliminated altogether and its debts assumed by the central bank. The government's problem is that some of the Hondurans who will be negatively affected by the demise of the corporation are among its major supporters (Latin America Regional Reports, 10-29-82, pp. 5+).

The consequence of the country's financial straits for the civilian government is that it is hardly in a position to resist pressures placed on it by any external force offering resources to rescue the economy from collapse. At present the U.S. is Honduras' largest single financial supporter, with total aid expected to exceed $80 million in fiscal year 1982 (Keasing's Contemporary Archives, 4-2-82, pp. 31407+).

The civilian government faces other threats to its autonomy as well. One is the military establishment. Despite appearances, the present government is not completely in the control of civilians, nor was it intended to be. Prior to the presidential elections an agreement was reached among both major candidates and the armed forces that the latter would retain veto power over all cabinet appointments and responsibility for national security (Keasing's Contemporary Archives, 4-2-82, pp. 31407+). In the ensuing months the hand of the Honduran military has been strengthened mightily as the United States' military interest and involvement in the country has grown. Direct military aid to Honduras has increased severalfold in the last three years, much of it going to build the Honduran air force, now considered the strongest and most modern in the region. In addition to regular military aid, this year Congress approved the expenditure of $21 million to lengthen three airstrips near the Honduran-Nicaraguan border; and $19.9 million is said to have been allocated to finance a covert CIA operation to interrupt the shipment of arms from Nicaragua to El Salvador (Keasing's Contemporary Archives, 4-2-82, pp. 31401; Newsweek, 11-8-82, pp. 42-46+).

Under these circumstances President Suazo may have little choice but to assent to most, if not all, the military's wishes. The military, in turn, has every reason to accord to the desires of its major supplier of arms (Latin America Weekly Report, 12-11-81, pp. 9+; 1-29-82, p. 2).

The threat of the military to a fragile civilian government is hardly new in Honduras. Should the government revert to overt military control, Honduras would be following a pattern with which it is well familiar. Indeed, the makeup of the present government is not strikingly different from that of previous regimes (Latin America Weekly Report, 2-5-82, p. 7). The loss of a democratic structure, while regrettable, would not in and of itself be calamitous for the country. Honduras has so far avoided the excesses of other authoritarian regimes in the region, and military control during the past decade has involved an ongoing balancing act between relatively repressive and relatively reformist tendencies within the Honduran ruling circle (Posas, 1981; Atlantic, 8-82, pp. 164).

The real problems for Honduras and its incipient democracy lie in the greatly increased potential for political and social turmoil and for regional warfare. Central American national borders are long and porous. As one observer has noted:

The political histories of the Central American states are closely interwoven, and intervention in the affairs of neighboring states is a time-honored tradition. Today, businessmen, political parties, bishops, journalists, right-wing "death squads," generals and guerrillas join together across borders, in formal organizations and informal support networks. Events in any one country now travel quickly across these numerous channels and affect the mood and political calculations of people throughout the region (Feinberg, 1981: 1137).
Today, also, any action Honduras takes of its own accord or at the behest of outside interests to affect the political situation of one of its neighbors has the effect of boomeranging. The Honduran army has begun cooperating openly with the government forces of El Salvador against the guerrillas along their common border (Latin America Wkly. Report, 1-22-82, pp. 7; 7-5-82, pp. 2054; Economist, 7-10-82, pp. 34+). But increased cooperation with that government means increased interest among Salvadoran guerrillas in destabilizing the Honduran government (This Week: Central America & Panama, 7-5-82, pp. 2004; 6-14-82, pp. 1804). Indeed, one of El Salvador's guerrilla leaders was recently captured in Honduras, and evidence suggests that the Honduran guerrillas who held prominent Honduran businessmen and three high government officials in San Pedro Sula had connections with Salvadorans (Facts on File, 9-10-82, pp. 728+; Economist, 9-25-82, p. 59; This Week: Central America & Panama, 9-20-82, p. 291). The Honduran army also appears to be collaborating with the U.S. and with anti-Sandinista forces along the Nicaraguan border in activities designed minimally to unsettle the ruling government of Nicaragua (New York Times Magazine, 7-18-82, pp. 20-25+; Atlantic, 8-82, pp. 16+; Newsweek, 11-8-82, pp. 42-46+).

Whether or not the Sandinista government will become properly unsettled remains to be seen; but in the interim, the ruling junta has a strong rationale for building up their already large forces even further. Moreover, border activities and heightened fears create a situation where a minor incident could spark open conflict between the two countries. During the month of August, Honduras appeared to be putting itself on a war footing. Young men were forcibly conscripted, and patriotic feelings were being hyped (Wall St. J., 9-28-82 pp. 1+; This Week: Central America & Panama, 7-26-82, p. 229; 8-23-82, pp. 261+). Since then, cooler heads may have prevailed, but guerrilla activities and human rights violations, which a year ago were hardly heard of in Honduras, are on the rise as internal violence, once introduced, feeds upon itself (This Week: Central America & Panama, 10-29-82, pp. 33+; Economist, 9-4-82, pp. 33; Latin America Regional Reports, 9-24-82, pp. 1+; Latin America Wkly. Report, 2-19-82, p. 12; Christianity & Crisis, 3-2-81, pp. 35+).

Thus, the Honduran government, as it prepares to enter its second year, faces formidable obstacles to its authority but has few strengths with which to assert itself. Its fate seems to be in the hands of interests and forces extending beyond its immediate domestic concerns. It can only hope, then, that future developments will mitigate against further encroachments on its rightful sovereignty.


IV. NORTH AMERICA

CANADIAN POLICY OF BILINGUALISM — During September the Quebec Superior Court upheld the supremacy of the Canadian Charter of Rights and Freedoms over the Quebec Charter of the French Language, Bill 101. The Canadian Charter guarantees all children of French- or English-speaking parents an education in their native language in the primary and secondary schools of each province, wherever numbers warrant. The Quebec Charter restricts access to English schools in the province of Quebec to only those children whose parents were educated in English in Quebec. The court ruled that the attempt by Quebec to ban English-speaking Canadian children from English schools within its borders was "an exaggerated and unconstitutional response to the wish to protect French culture." Premier Rene Levesque of Quebec and members of the ruling Parti Quebecois, who view Bill 101 as essential to preserve the cultural and linguistic security of the French-speaking people of Quebec, strongly disagreed, denounced the ruling, and made plans for an immediate appeal (Maclean's 9-20-82, p. 19).

Although the problems of living in a nation with a dual culture and language came to the forefront of Canadian politics in the early 1960s, strained relations between the French and English have their roots in the fundamental differences and conflicts that began in Europe and
continued in the New World. Although the French were first to claim vast tracts of land in the New World, they were eventually forced to concede most of it to their more powerful English adversaries. The English then took measures to undercut the Catholic religion, French civil law, and French language of their new subjects. French-Canadians, however, were loath to surrender their way of life, and the province of Quebec became their cultural stronghold. In 1774 British fears that the Canadian French would side with rebellious American colonists led to the passage of the Quebec Act, which guaranteed French-Canadians retention of their French civil law, sepulchral landholding system, and Catholic religion (Metcalfe, 1982:88-91).

The French, determined above all to survive with their language and culture intact, found in the Catholic Church a strong structure for support. The local Catholic clergy controlled all parts of French family life from baptism at birth to the last rites at death (Metcalfe, 1982:351). Submission to authority, encouraged by the Church, was carried over into the French family, with its authoritarian father. Until 1960 French civil law supported this arrangement, giving the husband full legal rights over the family, including his wife's property. In keeping with the needs of an agricultural populace and with Catholic encouragement of fruitfulness, the average number of children was about eight. In French Canada, a special meaning was attached to the extremely high birthrate — "the revenge of the cradle" against the English. A distinguishing feature of French-Canadian life was thus the large extended network of family and kin, with the mother and father each occupying special roles within that system (Metcalfe, 1982:356).

The Catholic Church, although key to the survival of French culture, denied the people the education needed to compete in a new urban environment. Feeling that urban life and industrial organizations create new sets of values running counter to the traditional ones of church, family, and community, the clergy worked to maintain an attachment to rural life among French-Canadians even after they were no longer primarily an agrarian people. Until 1960 Quebec schools, controlled by the Church, offered only an elementary education — viewed as sufficient for a rural population. A few of the larger cities offered secondary education, which opened the way not to higher education and responsible positions in the industrializing cities, but to lower-salaried jobs. Quebec's few colleges, also run by the Church, were only for the elite. A French liberal arts education was not adequate training for entrance into technical or managerial positions in industry, and entrepreneurial endeavors and other types of assertiveness in business were discouraged. Thus by inclination and training, educated French-Canadians became professional people outside the world of business, finance, and industry (Cliff, 1980:7-12 & 391-394).

Partly because of these features of French life, industrial development in Quebec came about largely through the efforts (if not the labor) of non-French entrepreneurs. Ownership and control of business and industry after the developmental stage remained primarily in the hands of the non-French. The English-speaking minority in Quebec thus occupied top-level managerial positions while the French-speaking population, forced to be bilingual to obtain work, filled lower-level jobs. Beginning around 1960, when the Quebec Liberal Party came into power in Quebec, the province underwent a series of economic, political, and educational changes based on increased cultural assertion, autonomy, and modernization, and a greater voice in international affairs which has since come to be known as the "Quiet Revolution." The French-Canadian spirit was summed up in the slogan, "ma tres chez-nous" — "masters in our own house." The disliked but hitherto accepted ethnic stratification which placed the French in a socioeconomically inferior position to the English even in Quebec was no longer to be tolerated by a now, increasingly educated class of French-speaking Canadians who were growing in political power (Cliff, 1980:86-106).

In response to growing unrest caused by French-Canadian separatists who advocated complete independence for Quebec, the Canadian federal government created the Royal Commission on Bilingualism and Biculturalism to investigate problems of the bilingual and bicultural structure of the nation (Essman, 1982:2334). In 1965 the Commission confirmed what
French-Canadians had known for decades — that by all socioeconomic indicators (e.g., education, income, occupation) the French-speaking population, including those in Quebec, fell well below the national average. They were even more disadvantaged than newly arrived immigrants. On the basis of the commission’s recommendations, the government led by Prime Minister Pierre Trudeau, who advocated a strong, modern, progressive — but not separate — Quebec, passed the Official Languages Act (OLA) of 1969 (Language & Society, Autumn 1982, p. 12).

The Act — an attempt to respond positively to the growing discontent among the French of Quebec with their status in Canada — had as its principal objectives, first, to persuade French-Canadians that they were being treated fairly and, second, to avoid the possibility that they would try seriously to assert independence for Quebec. The Act proclaimed the English and French languages to have “equality of status and equal rights and privileges as to their use in all the institutions of Parliament and the government of Canada” (Esmen, 1982:235). For the first time all official statements of the federal government, crown corporations, and armed forces were to be printed in both languages everywhere in Canada, not only in Quebec as had been previously done. The OLA would permit French-speaking Canadians to communicate with and obtain services from federal agencies in French, provide them equal opportunities for employment and careers in the federal government, and allow them to work in their native language (Esmen, 1982:234-38).

Many English-speaking Canadians then and still are hostile to the Act. Although most agree that French may be used as a regional language, they do not feel it should be forced on the rest of the nation. Rather, they consider it the responsibility of all ethnic minorities to learn English. People who are either Anglo-Saxon or French exceed the number of French-speaking people in Canada. In areas west of Ontario, the population consists primarily of Ukrainians, Germans, and Scandinavians who learned English when they came to Canada and now see no reason to learn French. Native peoples who may have been punished for speaking their language in school have special reasons for rejecting the idea that French should be an official language of Canada (Language & Society, Winter/Spring 1982, pp. 7-16). Many Canadians have been annoyed by the large expenses necessary to carry out the official policy (1% of the total federal budget during 1978-79 (Esmen, 1982:240) and by the seemingly uncooperative attitude of the French: Soon after the federal government proclaimed a policy of bilingualism Quebec rejected its tradition of bilingualism in favor of French unilingualism.

The Quebecois, as French-Canadians now prefer to be called, perceive the problem as going much deeper than language. To them it involves a fight for survival in a rapidly changing Quebec. For over 300 years French-Canadians maintained the highest birthrate in the world and, because of it, until recently kept their proportion of the Canadian population at about 30%. But by 1960, in response to a variety of factors related to modernization and urbanization, the birthrate of the Quebecois had dropped dramatically to below the Canadian average. As a result of the low Quebecois’ birthrate, newcomers to Quebec learning English rather than French, and the growth of mass media communications from the U.S. bringing the English language and American customs into every home, the Quebecois see their majority status, lifestyle, language, and culture threatened. Hoping to maintain the status quo in Quebec, the provincial government demanded that all immigrants acculturate to the French language and, in particular, that the children of all immigrants attend French schools.

To achieve their goals, the government of Quebec enacted two strong pieces of legislation. In 1974 they passed Bill 22, requiring all professionals licensed in the province to qualify in French, larger- and medium-sized companies to use French at the managerial level and to increase the number of French language speakers, and all children of immigrants without a working knowledge of English to attend French schools. Bill 101, passed in 1977, was to ensure the dominance of the French language in every area of life in Quebec (Maclean’s, 1982:362). It was this final piece of legislation that the Quebec Superior Court declared not only unconstitutional but “breeding with totalitarianism” (Maclean’s, 9-20-82, p. 151) when it upheld the supremacy of the Canadian Charter over Bill 101.
The federal government, in its response to perceived social and economic injustice, as well as in an attempt to placate the Quebecois, first enacted the OLA, which proclaimed Canada to be an officially bilingual nation. It then created a section in the Canadian Charter requiring each province to provide members of the French- or English-speaking minority an education in their own language. But as the federal government has moved toward bilingualism and fairness to the French minority, the Quebecois, in the name of linguistic and cultural survival, have retreated from it. They have refused to embrace the official policy of bilingualism and, by enacting Bill 101, have tried to deny English-speaking children in Quebec an education in their mother tongue.

In May 1980 the Parti Quebecois under the leadership of Rene Levesque called for a referendum in which voters were asked to give the Parti Quebecois a mandate to negotiate sovereignty/association with the Canadian federal government. Although the plan was rejected by a 59% to 41% vote, the threat of separation remains real today. During a time of great crisis for the United States, Abraham Lincoln said of this nation: "Physically speaking, we cannot separate. We cannot remove our respective sections from each other, nor build an impassable wall between them" (Metcalfe, 1982:141-1). The same might be said of present-day Canada. The national government thus faces a difficult situation. It must try to keep together a confederation made up of different regions and people and build it into a unified nation. But in doing so, it cannot allow fairness to one constituency to be converted into unfairness to the remainder of the nation.


V. EDITORIAL

OPEC IN THE CENTER RING - The circus has long been popular in the United States and Western Europe. We are all aware, of course, that the first and third rings in the Big Tent present side attractions, while the main event is in the center ring. Sometimes, when there are activities in all three rings, it is difficult to focus on the main event. At other times, the lights are dimmed on each side, and the main event is the center of attention. In some respects world events are like a three-ring circus. Sometimes all our interest is on the center ring.

During the 1970s the Organization of the Petroleum Exporting Countries (OPEC) was twice the focus of attention in the center ring. The first time was October 1973 during the Arab oil embargo; the second was October 1978 - March 1979 during the Iranian crisis that resulted in the overthrow of the Shah. In each case the audience was treated to a spectacular performance.

The end result of the Arab oil embargo was that world oil prices more than quadrupled, from about $3 to $12 per barrel. In 1978-1979 prices rose two-and-a-half times, to over $30 per barrel. Thus in a brief span of seven years prices increased tenfold. What a spectacular display!

It should be emphasized that oil prices did not increase gradually; rather, they were "ratcheted" sharply upward and then remained flat for a prolonged time. Understanding the nature of oil prices and why they are high is difficult but, hopefully, worth the effort. Their level and variability may be described simply as the "oil price ratchet process" -- i.e., the process by which contract prices remain stable for prolonged periods, increase at a dramatic rate, only to remain stable again for several years.

To understand oil prices two basic questions need to be addressed. First, what are the determinants of the level of oil prices (and production) and second, what are the determinants of the variability of oil
prices (and production)? These seemingly related questions are the source of great confusion.

The price level is determined primarily by Saudi Arabia, which produces 10-20% of the free world total and has the capability of augmenting or reducing its production level over a very broad range. The Saudi government establishes the price of its most abundant crude — Saudi Arabian Light (34 degrees API gravity and 1.7% sulphur content). On this basis, all other producers set the price for their own crudes, taking into account the quality of their oil (as measured by gravity and sulphur content) and their proximity to major European, American, and Japanese markets. OPEC is a price-fixing cartel, meaning that, given what Saudi Arabia charges, all other producers set their own prices. Buyers then determine the quantities they will take from each.

The variability of prices is a more complicated issue. Here we must ascertain how it was that prices increased from $3 to $12 per barrel in one year and then from $12 to $34 during a similar time span. "Variability" in this context refers to trend line increases in contract prices over time. The trend line, however, oversimplifies price changes. "Spot" (as opposed to "contract") prices were even more variable, and they changed in both directions. Spot prices are continuously negotiated by buyers and sellers, usually for a large lot or shipload cargo. In contrast, contract prices apply to all oil exchanged by two parties during a long time period, such as a year. Most oil is sold under contract, but 5-15% moves on spot markets. In 1973-74 spot prices reached $18; in 1980 they were over $40 per barrel. At some point after both crises spot prices receded to about two-thirds of their high. These were flourishing around the more stable contract prices, but spot and contract prices are interrelated. More on this later.

A more subtle part of the ratchet process is the role played by oil inventories. Conventional economic wisdom teaches that inventory speculation tends to stabilize prices and production over time. According to the theory, anticipated shortages bring speculators into the market, increasing demand immediately and raising prices; higher prices then induce producers to augment production in competition with other producers, so that future prices are lower than they would have been in the absence of speculation. Producers continue to increase production as long as they have an opportunity to earn additional profits. Eventually, prices reach a market clearing level where they approximately equal costs of production, including a "normal" return for the producer. This is a valid theory for a competitive market.

However, the theory is not appropriate when applied to OPEC, simply because OPEC producers do not compete with one another in the manner postulated by the theory. As the model suggests, anticipated shortages do increase demand right now; prices do rise; and producers within and outside OPEC do augment production for a time. But reserves outside OPEC are not as large as those held within it; so the ability to augment production sufficiently to bring prices down to production costs rests with the cartel. OPEC producers, contrary to the expectations of the model, are willing to reduce output in order to maintain high prices.

The price level, price variability, and inventory phenomena are interrelated, as may be shown by examining the recent history of oil markets. The first sharp price increase occurred in response to the Arab oil embargo in October 1973 and the second in response to the Iranian crisis. Political crises are basic to the upward thrust of oil prices.

Prior to the Arab embargo oil inventories were extraordinarily low. It does not pay to hold large stocks when prices are stable. When the embargo was announced, consumers, large industrial users, refiners, and the major oil companies began to scramble for oil in order to build stocks. They thus accentuated the upward price spiral; but by the time the crisis was over, more oil had not come on stream. Rather, OPEC member countries chose to validate the new much higher contract prices by cutting production.

During this and the later crises, when OPEC was in the center arena, spectators sat up and took notice, marveling at the wondrous
tests of OPEC. Skeptics argued that OPEC would falI from its lofty perch, while admirers sought to emulate the "mighty" cartel. But most, when the show was over, were apathetic, content to leave OPEC to its own devices or to ready itself for another event.

Apathy toward OPEC by the general public, business leaders, and government officials was most apparent during the period 1976-78. After filling gasoline and fuel oil tanks to the brim in the fall of 1973, consuming countries allowed their stocks to return to normal levels by 1976. During the summer of 1978, when supplies were generally thought to be adequate, they almost ran tanks dry. In late 1973 alarmed American auto manufacturers began implementing plans to build smaller cars; by 1976 they surmised that American auto buyers would again prefer the "gas guzzler." Government attitudes were revealed by former Secretary of Energy James R. Schlesinger. In August 1978 he warned that there would be an oil shortage around 1985, despite the current "severe glut" on oil markets.

Strikes in the Iranian oil fields in September 1978 and the formal overthrow of the Reza Shah Pahlavi four months later once again plunged oil markets into turmoil. The new Iranian regime was in disarray, and many of its leaders thought oil was too valuable to burn. The result was that oil production fell by nearly 9 million barrels per day (b/d) in Iran. Prior to the crisis, Iran produced 5.5 million b/d, but during January and February 1979 production was only 0.6 million b/d. This represented a reduction of about 10% of the free world total.

Among the lay public and the press it is generally thought that Iran's reduction in oil output caused the oil shortage in early 1979. However, the conventional wisdom, as so often, is in error. The fact is that while Iranian oil production declined, production in other major-producing countries (Saudi Arabia, Iraq, Kuwait, etc.) increased substantially. Thus, total OPEC production of 29.2 million b/d in January 1979 exceeded the year-to-date OPEC total by nearly 1.0 million b/d, even though Iran was producing 5 million b/d less. The difference was that oil inventories were being built up in 1979, whereas they were being drawn down in 1978.

Now in the fall of 1982 consumers, business people, and government officials are again receding into a state of apathy regarding oil supplies. The fact that oil inventory speculation raises oil prices permanently is a hard lesson for conventional economists and government officials to learn. The facts are in conflict with the received theory; so many accept the theory and reject the facts. What needs to be recognized, of course, is that a theory which is valid in one context (competitive markets) is not necessarily valid in another (cartelized markets). But subtleties such as this are difficult to comprehend. Gasoline and fuel oil tanks have again been allowed to recede to normal levels; business is conducted as usual; and government agencies are now predicting a severe shortage around 1990, but a continued glut into the forseeable future.

Although OPEC is no longer in the center ring, it could return there sooner than many realize. The current low level of oil demand is caused by three basic factors. First is a secular, or long-term, decline in the rate of increase in oil demand. Second is a cyclical, or short-term, decline in all consumption caused by the low level of economic activity in the major industrial countries. Third is a worldwide reduction in oil inventories. The International Energy Agency estimates that at least half the current decline in oil demand is due to the cyclical downturn in economic activity; another quarter is apparently due to inventory drawdown.

The cyclical decline and inventory drawdown do not represent permanent reductions in oil demand. In fact, the inventory drawdown will necessarily come to an end when inventories reach levels required to keep the delivery system running and/or when legal minimum levels are reached. The cyclical decline in economic activity is unwanted because of its undesirable impact on employment and living standards. Oil consuming countries are therefore trying to implement policies to promote growth.
The reason responsible people in both public and private sectors have made so many errors in oil policy is that they do not understand the fundamentals and dynamics of OPEC and oil markets. This is unfortunate because consuming countries can take action to mitigate a possible crisis around 1984 or 1985. What should be done includes: (1) holding private oil stocks at near capacity level; (2) building public stocks as rapidly as possible -- now, while oil is abundant and "cheap"; (3) developing policies which will require inventory drawdown and/or penalize inventory buildup by the private sector during a crisis; and (4) utilizing public stocks during a crisis. Other contingency plans should also be developed, but these are the minimum requirements with respect to inventories.

Earlier it was stated that OPEC is a price-fixing cartel. This is the weakest form of cartel arrangement but the easiest to establish. A market-sharing cartel is stronger because quotas on output that are set to share a market are easier to monitor than prices. But the establishment of such a cartel requires the surrender of sovereignty over the exploitation of reserves. Thus far, the various OPEC countries have been unwilling to surrender their individual sovereignty. That OPEC is a relatively weak cartel may surprise many; but the fact is amply demonstrated by what most people consider evidence of its strength -- that is to say, the sharp price increases of 1974 and 1979. A strong cartel would increase prices gradually in order to minimize shock effects associated with crises. A weak cartel must behave opportunistically.

The consuming countries were ill-prepared for an oil crisis in 1973 and 1978. They are ill-prepared now. It should come as no surprise if there is another severe oil crisis in 1984 or 1985. If we are caught with our inventories down and the Middle East experiences another political crisis, we may be treated one more time to an OPEC extravaganza. OPEC will again be in the center ring.

-----Albert Danielson